GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1174
ANSWERED ON:23.11.2007
VALUE OF EQUITIES ACQUIRED THROUGH PNS
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Will the Minister of FINANCE be pleased to state:

(a) the current value of equities acquired through participatory notes in the Indian Stock market;

(b) whether the Government has decided to moderate the role of Participatory Notes;

(c) if so, the details thereof and if not, reasons therefor;

(d) whether the Union Government has made/decided to make assessments of the possible consequences of flow of foreign funds into the country through Participatory Notes;

(e) if so, the details thereof;

(f) if not, the reasons therefor; and

(g) further steps taken/being taken by the Government to regulate foreign investments through instruments such as Participatory Notes?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) The Securities and Exchange Board of India (SEBI) has informed that the notional value of outstanding Participatory Notes (PNs) with Indian equities as underlying amounts to Rs.2,68,957 crore as of September 30, 2007.

(b) and (c): To regulate issuance of PNs with Indian underlying securities, the SEBI Board, in a meeting held on October 25, 2007, has approved the following measures:

1. FIIs and their sub-accounts shall not issue/renew Offshore Derivative Instruments (ODIs) with underlying as derivatives with immediate effect. They are required to wind up the current position over 18 months, during which period SEBI will review the position from time to time.

2. Further issuance of ODIs by the sub-accounts of FIIs will be discontinued with immediate effect. They will be required to wind up the current position over 18 months, during which period SEBI will review the position from time to time.

3. The FIIs who are currently issuing ODIs with notional value of PNs outstanding (excluding derivatives) as a percentage of their Assets Under Custody (AUC) in India of less than 40% shall be allowed to issue further ODIs only at the incremental rate of 5% of their AUC in India.

4. Those FIIs with notional value of PNs outstanding (excluding derivatives) as a percentage of their AUC in India of more than 40% shall issue PNs only against cancellation / redemption / closing out of the existing PNs of at least equivalent amount.

(d) to (g): The policies on foreign investment flows are reviewed periodically by the Government in consultation with the Reserve Bank of India and SEBI keeping in mind the current macroeconomic situation, changing market conditions, challenges faced in the external sector management and experience gained so far in administering the policy. However, at present, Government does not propose any further steps to regulate investments through PNs.